

17 April 2009

Pharmacists - Are you prepared to sell?



The market for buying and selling pharmacies has been very sluggish in the last 18 months as uncertainty reigns over profitability in the sector and the credit crunch has made access to funds for potential purchasers very difficult.

Many pharmacists concerned about falling margins and increasing regulation in the retail pharmacy sector have taken the view that now is the time to sell. However there are pharmacists in expansion mode but who are currently adopting a wait and see approach until the market stabilises and the long term profitability of the sector becomes more apparent.

Fergal Melia, Pharmacy Specialist with Russell Brennan Keane, Chartered Accountants believes there will be a significant number of pharmacies coming up for sale in the next two years as the general downturn hits profit margins and cuts in the HSE reimbursement's to pharmacists under the community drugs schemes are implemented. However Fergal also looks after a number of pharmacists looking to expand their operations who believe that now is the time to buy when the sales prices of pharmacies are low.

Therefore if you are thinking of selling in the next 2-3 years what should you do about it now? What will differentiate your shop from the shop in a neighbouring town that is also for sale? What will boost the actual sales price that you ultimately achieve?

Fergal believes that the sales process must start early. "It is often said that you should start to prepare your business for sale, the day you establish the business. What this really means is that the key elements that a potential buyer looks for in a business don't happen overnight and need to be worked on".

Fergal believes there are a number of key elements that should be worked on prior to formally starting the sales process:

1. Profitability

Gone are the days when pharmacies were sold on the basis of multiples of turnover. While turnover is still crucial, potential purchasers are also focusing on historic and future maintainable profits when valuing a pharmacy. Recent transactions in the industry would indicate that pharmacies are being sold at prices comparable to eight times annual maintainable profits. So to put the importance of maximising profitability into perspective, if you increased profits by €10,000, this could equate to an additional €80,000 in the sales price you achieve.

Fergal is advising his client's who are considering selling to step back, review their business and set a target for growth in profit for the next 12 months.

2. Operating Costs

You should always review your day to day costs but particularly when you are preparing for sale. Are there any costs that can be reduced without affecting the operation of the pharmacy? Put simply again – for every €1 you save now, it might be worth eight times that when you go to sell.

3. Management, Staff and Systems

A potential buyer will also want to be confident that the business is not completely reliant on the current operator and that (s) he can step into the vendor's shoes and also be comfortable with the manager next in command. Therefore the quality of staff, the systems in place and the strength of the business relationship with local medical professionals will be important considerations for any purchaser.

4. Trends

In addition to reviewing profitability and costs, a purchaser will be looking at the financial trends in your audited accounts. They will focus on turnover, gross margin and profitability trends. Ideally they should display steady and consistent growth in the years leading up to sale. An upward curve indicates a vibrant, well run business with an increasing market share.

Conclusion - Fail to Prepare, Prepare to Fail

Fergal believes that many pharmacists have a tendency to jump straight into the marketing phase of the sales process without doing the essential preparatory work. "The owner often makes a quick decision that now is the time to sell and they bring the business straight to the market. This is a fatal error as you are less likely to succeed without proper planning and you lose credibility if you have to go to the market a number of times with the same business. Talk to someone who understands the sale process and plan your sale at least 18 months in advance"

For Further Information

If you would like to discuss your pharmacy's individual circumstances or discuss how to maximise the value of your pharmacy business please contact Fergal Melia, Russell Brennan Keane's pharmacy specialist on 090 6480600 or by email: fmelia@rbk.ie or Chris Ball, Corporate Finance Director, Russell Brennan Keane on 090 6480600 or by email: cball@rbk.ie.

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About RBK

Russell Brennan Keane is one of Ireland's leading business advisory and accountancy firms. With 50 years experience providing professional advisory services to a range of clients in the mid to large corporate market in Ireland, from offices in Dublin, Athlone and Roscommon.

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